

**VIRGINIA POLYTECHNIC INSTITUTE  
AND STATE UNIVERSITY**

**INTERCOLLEGIATE ATHLETICS PROGRAMS  
FOR THE YEAR ENDED  
JUNE 30, 2006**



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# Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts  
P.O. Box 1295  
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November 1, 2006

The Honorable Timothy M. Kaine  
Governor of Virginia

The Honorable Thomas K. Norment, Jr.  
Chairman, Joint Legislative Audit  
and Review Commission

Dr. Charles W. Steger  
President, Virginia Polytechnic Institute and  
State University

## INDEPENDENT AUDITOR'S REPORT ON APPLICATION OF AGREED-UPON PROCEDURES

We have performed the procedures enumerated below, which were agreed to by the President of **Virginia Polytechnic Institute and State University** (University), solely to assist the University in evaluating whether the accompanying Schedule of Revenues and Expenses of Intercollegiate Athletics Programs of the University is in compliance with National Collegiate Athletic Association (NCAA) Bylaw 6.2.3, for the year ended June 30, 2006. The University's management is responsible for the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs (Schedule) and the Schedule's compliance with NCAA requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the University. Consequently, we make no representation regarding sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

### Agreed-Upon Procedures Related to the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs

The procedures that we performed and our findings are as follows:

#### Internal Controls

1. We reviewed documentation of accounting systems and operating procedures. We reviewed the relationship of internal control over Intercollegiate Athletics Programs to internal control reviewed in connection with our audits of the University's financial statements. In addition, we identified and reviewed those controls unique to Intercollegiate Athletics Programs, which were not reviewed in connection with our audit of the University's financial statements.

2. We reviewed an organizational chart provided by the Intercollegiate Athletics Department and discussed it with appropriate personnel. We also made certain inquiries of management regarding control consciousness, the use of internal audit in the department, competence of personnel, and protection of records and equipment.
3. The University provided us with their procedures for gathering information on the nature and extent of affiliated and outside organizational activity for or on behalf of the intercollegiate athletics programs.

#### Affiliated and Outside Organizations

4. Intercollegiate Athletics Department management identified all intercollegiate athletics-related affiliated and outside organizations and provided us with copies of audited financial statements for each such organization for the reporting period.
5. The Intercollegiate Athletics Department prepared and provided to us a summary of revenues and expenses for or on behalf of the intercollegiate athletics programs by affiliated and outside organizations included in the Schedule.
6. We obtained any additional reports regarding internal control matters identified during the independent audits of affiliated and outside organizations and inquired as to the corrective action taken in response to such comments. We noted that the affiliated organizations had been audited by independent public accountants and we were not made aware of any internal control findings.

#### Schedule of Revenues and Expenses of Intercollegiate Athletics Programs

7. We obtained the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs (Schedule) for the year ended June 30, 2006, as prepared by the University and shown in this report. We recalculated the addition of the amounts on the Schedule, traced the amounts on the Schedule to management's worksheets, and agreed the amounts on management's worksheets to the Intercollegiate Athletics Department's accounts in the accounting records. We noted no differences between the amounts in the Athletics Department's accounts in the accounting records and the amounts on the worksheets. We discussed the nature of work sheet adjustments with management and are satisfied that the adjustments are appropriate.
8. We applied certain analytical review techniques to the balances reported on the Schedule in order to determine the reasonableness of amounts reported therein. These techniques included trend analyses and other tests using operating data and review of actual amounts expended in comparison to budgeted amounts.

#### Revenues

9. We compared each major revenue account to prior period amounts and budget estimates. We obtained and documented an understanding of all significant variances.

10. Intercollegiate Athletics Department management provided us with a reconciliation of tickets sold during the reporting period along with complimentary tickets and unsold tickets to the revenue recorded in the Schedule and related attendance figures. We reviewed these reconciliations for selected games and found such reconciliations to be accurate and agreed to amounts recorded as ticket revenue for those games.
11. We compared student fees reported in the Schedule to amounts reported in the accounting records and an expected amount based on fee rates and enrollment. We found these amounts to be materially in agreement.
12. Intercollegiate Athletics Department management provided us with settlement reports and game guarantee agreements for away games during the reporting period. We reviewed these settlement reports and guarantee agreements for selected games and verified the mathematical accuracy and coding of the settlement reports and game guarantee agreements.
13. Intercollegiate Athletics Department management provided us with a listing of all contributions of moneys, goods, or services received directly by the Intercollegiate Athletics Department from any affiliated or outside organization, agency, or group of individuals that constitutes ten percent or more of all contributions received during the reporting period. We vouched each individual contribution received directly by the University for its intercollegiate athletics programs that constituted more than ten percent of the contributions so received. Except for contributions received from the Virginia Tech Foundation, Incorporated, an affiliated organization, we noted no individual contribution which constituted more than ten percent of total contributions received for intercollegiate athletics.
14. From the summary of revenues and expenses for or on behalf of the intercollegiate athletics programs by affiliated and outside organizations, we selected and tested receipts of such revenue and agreed each selection to supporting documentation and proper posting in the accounting records. We found all reviewed transactions to be in agreement.
15. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from tournaments, conference distributions, and NCAA distributions. We inspected the agreements and agreed significant amounts to supporting documentation.
16. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from broadcast, television, radio, and Internet rights. We inspected the agreements and agreed significant amounts to supporting documentation.
17. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from royalties, advertisements, and sponsorships. We selected and tested receipts of such revenue and, for those items; we inspected the agreements and agreed significant amounts to supporting documentation.

18. We obtained an understanding of the University's methodology for recording revenues from sport camps and inspected any sports-camp contracts between the University and persons conducting sport-camps or clinics during reporting period.
19. Based on receipts as listed in the accounting records, we selected and tested collections by the intercollegiate athletics program. We found all reviewed amounts to be in agreement with supporting documentation, deposited promptly and intact, and properly recorded in the accounting records.

#### Expenses

20. We compared each major expense account to prior period amounts and budget estimates. We obtained and documented an understanding of all significant variances.
21. Intercollegiate Athletics Department management provided us a listing of institutional student aid recipients during the reporting period. We selected individual student athletes across all sports and agreed amounts from the listing to their award letter. We also ensured that the total aid amount for each sport materially agreed to amounts reported as Financial Aid in the student accounting system
22. Intercollegiate Athletics Department management provided us with settlement reports and game guarantee agreements for home games during the reporting period. We reviewed these settlement reports, guarantee agreements for selected games, and verified the mathematical accuracy and coding of the settlement reports and game guarantee agreements. We found all reviewed amounts to be properly approved, in agreement with supporting documentation, and properly recorded in the accounting records.
23. Intercollegiate Athletics Department management provided us with a listing of coaches, support staff, and administrative personnel employed and paid by the University during the reporting period. We selected and tested individuals and compared amounts paid for one pay period or a bonus payment from the payroll accounting system to their contract or other employment agreement document. We found that recorded expenses equaled amounts paid as salary and bonuses and were in agreement with approved contracts or other documentation.
24. Intercollegiate Athletics Department management provided us with a listing of coaches, support staff, and administrative personnel employed and paid by the third parties during the reporting period. We selected and tested individuals and compared amounts paid for one pay period or a bonus payment from the payroll accounting system to their contract or other employment agreement document. We found that recorded expenses equaled amounts paid as salary and bonuses and were in agreement with approved contracts or other documentation.

25. Intercollegiate Athletics Department management provided us with a listing of severance payments made during the reporting period. We found that each reviewed severance payment agreed to the related termination letter or employment contract and was properly recorded in the accounting system.
26. We discussed the University's recruiting expense and team travel policies with Intercollegiate Athletics Department management and documented an understanding of those policies.
27. We obtained an understanding of the University's methodology for allocating indirect facilities support and ensured that amounts reported on the Schedule agreed to amounts recorded in the accounting records.
28. Based on disbursements as listed in the accounting records, we selected and tested payments to third parties by the intercollegiate athletics program. These disbursements were for supplies, equipment, travel, and other general expenses. We compared and agreed the selected operating expenses to adequate supporting documentation. We found all reviewed amounts to be properly approved, in agreement with supporting documentation, and properly recorded in the accounting records.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression on an opinion on the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs or any of the accounts or items referred to above. Accordingly, we do not express such an opinion. Had we performed additional procedures or had we made an audit of any financial statements of the Intercollegiate Athletics Department of Virginia Polytechnic Institute and State University in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to the University. This report relates only to the accounts and items specified above and does not extend to the financial statements of the University or its Intercollegiate Athletics Department taken as a whole.

This report is intended solely for the information and use of the President and the University and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR OF PUBLIC ACCOUNTS

WHC:sks  
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## **SCHEDULE**



VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY  
SCHEDULE OF REVENUES AND EXPENSES  
OF INTERCOLLEGIATE ATHLETICS PROGRAMS  
For The Year Ended June 30, 2006

	Football	Men's Basketball
Operating revenues:		
Ticket sales	\$ 10,814,926	\$ 1,912,567
Student fees	-	-
Guarantees	159,820	110,975
Contributions	7,383,803	354,251
Third party support	115,000	-
Direct state or other government support	-	-
Direct institutional support	-	-
NCAA conference distributions including all tournament revenues	4,089,435	3,030,524
Broadcast, television, radio, and internet rights	1,580,406	421,442
Program sales, concessions, novelty sales, and parking	755,115	108,027
Royalties, advertisements, and sponsorships	430,747	83,160
Endowment and investment income	802,483	105,926
Other	89,500	-
Total operating revenues	26,221,235	6,126,872
Operating expenses:		
Athletic student aid	1,737,268	355,016
Guarantees	536,601	330,000
Coaching salaries, benefits, and bonuses	4,662,828	878,660
Coaching other compensation and benefits paid by a third party	115,000	-
Support staff administrative salaries, benefits, and bonuses	1,026,838	185,344
Severance payments	60,226	-
Recruiting	196,487	149,875
Team travel	830,044	261,161
Equipment, uniforms, and supplies	286,901	70,271
Game expenses	719,709	181,350
Fund raising, marketing, and promotions	482,394	186,262
Direct facilities, maintenance, and rental	5,139,793	195,127
Spirit groups	301,578	17,706
Medical expenses and medical insurance	159,494	43,395
Memberships and dues	2,230	915
Other operating expenses	1,459,750	266,602
Total operating expenses	17,717,141	3,121,684
Excess/(deficiency) of revenues over/(under)expenses for the year	\$ 8,504,094	\$ 3,005,188

The accompanying Notes to the Schedule of Revenues and Expenses of Intercollegiate Athletic Programs are an integral part of this schedule.

	Women's Basketball	Men's Other Sports	Women's Other Sports	Non-Program Specific	Total
\$	212,109	\$ -	\$ -	\$ -	\$ 12,939,602
	-	-	1,953,373	3,933,591	5,886,964
	4,000	-	-	-	274,795
	188,841	1,516,359	1,914,511	2,508,976	13,866,741
	-	-	-	-	115,000
	-	-	-	7,121	7,121
	-	-	-	315,920	315,920
	104,374	95,126	76,997	1,108,787	8,505,243
	105,360	-	-	-	2,107,208
	44,645	-	-	235,059	1,142,846
	20,790	4,600	-	194,380	733,677
	173,511	297,667	573,614	561,799	2,515,000
	42,999	-	-	115,389	247,888
	896,629	1,913,752	4,518,495	8,981,022	48,658,005
	317,875	1,166,455	1,777,385	179,642	5,533,641
	28,083	-	-	-	894,684
	556,669	980,894	918,814	-	7,997,865
	-	-	-	-	115,000
	146,360	9,780	-	6,079,549	7,447,871
	-	16,737	20,490	35,122	132,575
	100,386	124,587	121,781	-	693,116
	269,264	506,872	576,853	-	2,444,194
	50,900	223,501	179,063	49,762	860,398
	119,147	64,063	61,978	-	1,146,247
	85,356	36,530	35,884	1,025,247	1,851,673
	69,568	1,120,077	1,738,436	3,569,027	11,832,028
	25,987	6,583	20,098	71,425	443,377
	35,284	137,100	164,752	213,681	753,706
	725	2,870	2,447	15,772	24,959
	163,905	123,594	109,201	1,017,117	3,140,169
	1,969,509	4,519,643	5,727,182	12,256,344	45,311,503
\$	(1,072,880)	\$ (2,605,891)	\$ (1,208,687)	\$ (3,275,322)	\$ 3,346,502

VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

NOTES TO THE SCHEDULE OF REVENUES AND EXPENSES OF

INTERCOLLEGIATE ATHLETICS PROGRAMS

FOR THE YEAR ENDED JUNE 30, 2006

1. BASIS OF PRESENTATION

The accompanying Schedule of Revenues and Expenses of Intercollegiate Athletics Programs has been prepared on the accrual basis of accounting. The purpose of the Schedule is to present a summary of revenues and expenses of the Intercollegiate Athletics Programs of the University for the year ended June 30, 2006. The Schedule includes those intercollegiate athletics revenues and expenses made in behalf of the University's athletics programs by outside organizations not under the accounting control of the University. Because the Schedule presents only a selected portion of the activities of the University, it is not intended to and does not present either the financial position, changes in financial position or cash flows for the year then ended. Revenues and expenses directly identifiable with each category of sport presented are reported accordingly. Revenues and expenses not directly identifiable to a specific sport are reported under the category "Non-Program Specific."

2. AFFILIATED ORGANIZATIONS

The University received \$15,086,957 from the Virginia Tech Foundation, Inc. Approximately \$5,231,498 of these funds was for grant-in-aid scholarships for student-athletes. These amounts received are included in the accompanying schedule as follows: \$13,580,459 is included in the Contributions line item and \$1,506,498 is included in the Endowment and Investment Income line item.

3. LONG-TERM DEBT

In October 1996, a revenue bond of \$6,250,000 was issued for the Athletic Department. This bond was issued for athletic facility improvements. The majority of this debt was refinanced in May 2004 with a \$4,155,000 revenue bond. This bond has an outstanding balance of \$4,130,000 and will be repaid with general operating revenues through 2016. The non-refinanced portion of the original issue (\$300,000) was repaid in 2006 with general operating revenues.

In October 2001, a \$26,285,000 note was issued for the Athletic Department. This note was issued for the South End Zone addition to Lane Stadium. This note has an outstanding balance of \$20,285,000 and will be repaid with private fund raising and operating revenues through 2027.

In May 2004, a \$52,715,000 revenue bond was issued for the Athletic Department. This bond was issued for the West Side Expansion to Lane Stadium, which was substantially completed in 2006. This bond has an outstanding balance of \$51,920,000 and will be repaid with private fund raising and operating revenues through 2029.

A summary of future principal and interest commitments for fiscal years subsequent to June 30, 2006 is presented as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 6,075,000	\$ 3,489,856	\$ 9,564,856
2008	4,715,000	3,300,731	8,015,731
2009	4,810,000	3,101,531	7,911,531
2010	2,270,000	2,906,319	5,176,319
2011	2,365,000	2,811,719	5,176,719
2012-2016	13,490,000	12,352,428	25,842,428
2017-2021	14,170,000	8,993,994	23,163,994
2022-2026	18,195,000	5,048,556	23,243,556
2027-2030	<u>10,245,000</u>	<u>884,838</u>	<u>11,129,838</u>
Total	<u>\$76,335,000</u>	<u>\$42,889,972</u>	<u>\$119,224,972</u>

#### 4. UNIVERSITY ADMINISTRATION FEE

As with all auxiliary enterprises, the University charges the Athletic Department an administrative fee. During the fiscal year, the Department paid \$1,511,629 to the University. This amount is included in Direct Facilities, Maintenance, and Rental expenses, in the Non-Program Specific category.

#### 5. CAPITAL ASSETS

Capital assets consisting of buildings, infrastructure, and equipment are stated at appraised historical cost or actual cost where determinable. Construction in progress (CIP) is capitalized at actual cost as expenses are incurred. The major activity in CIP relates to the on-going West Side Expansion of Lane Stadium. All gifts of capital assets are recorded at fair market value as of the date of donation.

Equipment is capitalized when the unit acquisition cost is \$2,000 or greater and the estimated useful life is one year or more. Renovation costs are capitalized when expenses total more than \$100,000, the asset value significantly increases, or the useful life is significantly extended. Routine repairs and maintenance are charged to operating expense in the year the expense is incurred.

Depreciation is computed using the straight-line method over the useful life of the assets. The useful life is forty to sixty years for buildings, ten to fifty years for infrastructure and land improvements, and three to thirty years for fixed and moveable equipment.

A summary of changes in capital assets follows for the year ending June 30, 2006 (dollars in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Depreciable capital assets:				
Buildings	\$62,103	\$53,907	\$ -	\$116,010
Moveable equipment	4,688	538	1,045	4,181
Infrastructure	11,783	1,446	-	13,229
Fixed equipment	<u>4,544</u>	<u>589</u>	<u>-</u>	<u>5,133</u>
Total depreciable capital assets, at cost	<u>83,118</u>	<u>56,480</u>	<u>1,045</u>	<u>138,553</u>
Less: accumulated depreciation:				
Buildings	13,109	2,515	-	15,624
Moveable equipment	2,964	386	790	2,560
Infrastructure	5,907	1,131	-	7,038
Fixed equipment	<u>3,363</u>	<u>124</u>	<u>-</u>	<u>3,487</u>
Total accumulated depreciation	<u>25,343</u>	<u>4,156</u>	<u>790</u>	<u>28,709</u>
Total depreciable capital assets, net of accumulated depreciation	<u>57,775</u>	<u>52,324</u>	<u>255</u>	<u>109,844</u>
Non-depreciable capital assets:				
Construction-in-progress	<u>28,398</u>	<u>26,916</u>	<u>55,224</u>	<u>90</u>
Total non-depreciable capital assets	<u>28,398</u>	<u>26,916</u>	<u>55,224</u>	<u>90</u>
Total capital assets, net of accumulated depreciation	<u>\$86,173</u>	<u>\$79,240</u>	<u>\$55,479</u>	<u>\$109,934</u>

VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

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